



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 12/30/1999

GAIN Report #PK9036

Pakistan

HRI Food Service Sector

HRI FOOD SECTOR REPORT

1999

Approved by: **Jim Dever, Ag Attache U.S. Embassy Islamabad, Pakistan**

Prepared by: **Asif Farrukh, Ag Specialist and ILM Consultants Lahore, Pakistan**

Report Highlights:

Sales in Pakistan's food service sector are expected to top \$1 billion in the next several years. Despite certain drawbacks, there is good potential for U.S. products promoted through local wholesalers and distributors.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Islamabad [PK1], PK

Table of Contents

I. MARKET SUMMARY	2
Food Service Outlets Market Shares	2
Advantages and Challenges for U.S. Products	3
II. ROAD MAP for MARKET ENTRY	4
Market Structure	4
Sub-sector Profiles	5
Hotels and Resorts	5
Family-style Restaurants	6
Fast Food Restaurants	7
Institutional Food Firms	7
III. COMPETITION	8
IV. BEST PRODUCTS	8
Products Present in the Market with Good Potential	8
Products Not Present in the Market but Have Good Potential	8
Products Not Present Due to Significant Barriers	9
V. POST CONTACT	9

Funding for this research was provided by the Emerging Markets Program

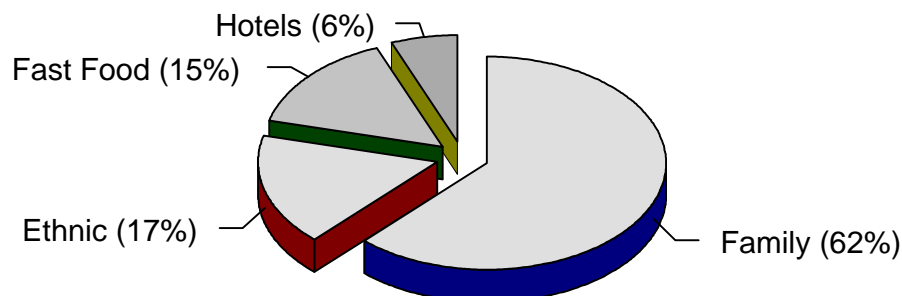
I. MARKET SUMMARY

With an estimated 150 million consumers, Pakistan is the world's ninth largest market. Economic growth, which averaged more than 5 percent annually during the past decade, slowed last year as a result of the Asian financial crisis and economic sanctions imposed following Pakistan's May 1998 nuclear tests. Although per capita income remains low (about \$450), there is a large and growing food service sector. The average Pakistani consumer spends 42% of her income on food.

Except for trekking in the northern areas, Pakistan is not a popular tourist destination and international hotels and resorts are limited. Pakistan is an Islamic Republic and alcoholic beverages are prohibited. Dining out, which had been declining, is again growing in popularity. In the past, most local hotels and restaurants served traditional foods. Recently, however, ethnic and fast foods, including western-style fast food, have become popular and an increasing number of fast food chains have been successfully established in the major urban areas. Weddings and other celebrations provided significant business for the food service sector until 1997 when the government banned meals at these events as an austerity measure.

Despite some problems, Pakistan's food service sector is expected to exhibit strong growth over the next five years. Industry sources forecast sales of more than \$1 billion by 2004, compared to estimated sales of \$720 million in 1998. The sector is dominated by numerous cafes and mid-sized family restaurants, which largely utilize domestic ingredients or ingredients processed from bulk imports. There is, however, a growing trend to ethnic and fast foods, many of which are imported to meet quality and taste standards. A breakdown of the Pakistan's food service sector is shown below:

Food Service Outlets Market Share



Although per capita expenditures for food services remain small by western standards, industry observers expect expenditures to increase significantly over the next five years. Some of the factors fueling the growth in consumer spending are:

- ! Rapid urbanization.
- ! Increased female participation in the work force.
- ! Increased exposure to different foods via the popular media and from workers and students returning from overseas.
- ! Promotional activities of the local industry.

As a result of changing lifestyles and tastes, the market for imported products for the hotel, restaurant and institutional sector is growing. Although the United States commands less than a one-percent share of Pakistan total \$500-million market for imported consumer foods and beverages, there is good potential for U.S. sales due to the quality and variety of U.S. products.

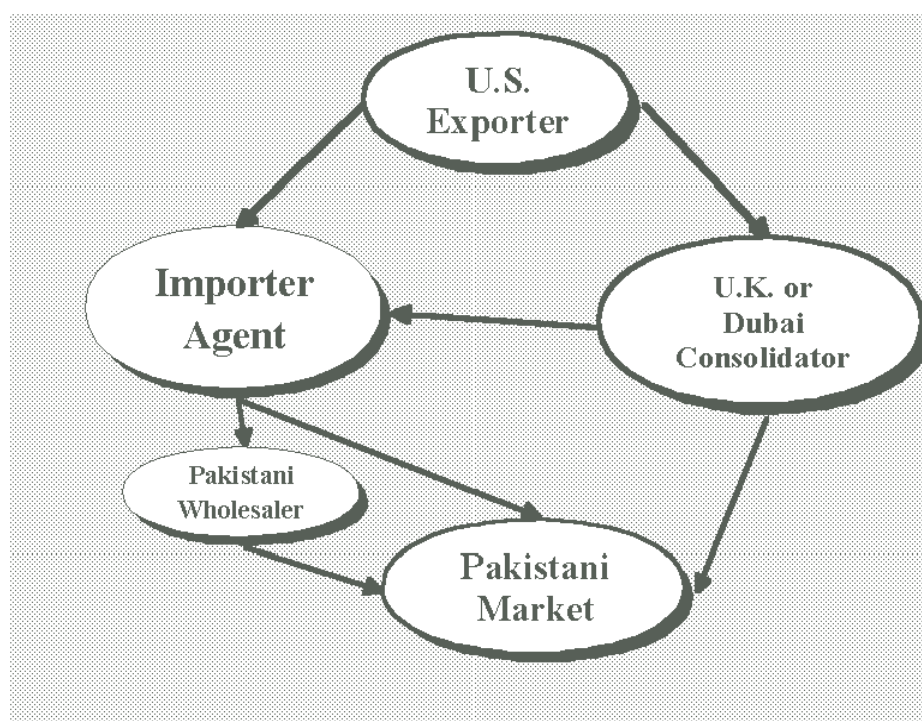
Advantages and Challenges Facing U.S. Products in Pakistan

<i>ADVANTAGES</i>	<i>CHALLENGES</i>
More than 11 million people dine out regularly.	Nearly two-thirds of the food service involves traditional foods, prepared from domestic ingredients.
Increased popularity of western and American cultures, including American foods.	Little knowledge of U.S. suppliers, products and import procedures.
High prices and lower-quality of domestic products increases the opportunity for imports.	Some firms are quality buyers but there is increasing competition, especially from Far Eastern suppliers.
U.S. suppliers are reliable and can supply consistent quality products to all food service sectors	Pakistan is a price-sensitive market for many items and competition is intense.

(Road Map for Market Entry

Pakistan is a price-sensitive market for the bulk of its food sector imports. Personal contact, either through an agent or a visit, is an important part of the transaction. An exporter's local representative is the key to a product's successful entry in the Pakistani market. The local representative should have a thorough understanding of the product and import regulations, including labeling and other requirements. In addition, he should understand the local market and consumers' preferences, have an efficient distribution network and, above all, be committed to marketing the product. Seminars and exhibits demonstrating the quality and variety of U.S. products also will help to stimulate sales.

MARKET STRUCTURE



- C Products usually are imported by traders or agents who may also be wholesalers or distributors and then sold to the food service sector. Most products are purchased from consolidators in England and the United Arab Emirate in person.
- C Most imports consist of established European or international brands, which require little or no market promotion.
- C Products imported by agents, who then promote them to the hotels, restaurants and

institutions have done well in the market.

- C Importers who promote a product expect exclusive distribution rights to protect their investment.
- C Hotels, restaurants and institutions generally do not take the financial risk of direct imports but instead buy from importers or distributors.
- C Importers generally import a variety of products and supply to a variety of food service outlets.
- C Only a few distributors have nationwide distribution networks. Refrigerated distribution is limited to a few local manufacturers.
- C Most producers or manufacturers still distribute a large portion of their products through regional distributors and wholesalers. Thus wholesalers and distributors play a relatively large role in Pakistan.

(Sub-Sector Profiles

Hotels and Resorts

Name of Hotels/Resorts	1998 Food Sales (\$ million)	Location	Number of Outlets	Purchasing Agent
Pearl Continental	7.30	Major Cities	5	Distributors, Contractors
Holiday Inn	5.57	Major Cities	4	Distributors, Contractors
Marriott	3.90	Islamabad, Karachi	2	Distributors, Contractors
Avari	1.86	Lahore, Karachi	2	Distributors, Direct Imports
Serena	1.44	Quetta, Gilgit Faisalabad	3	Distributors, Contractors
Sheraton	1.17	Karachi	1	Distributors, Contractors
Best Western	0.47	Islamabad	1	Distributors, Contractors
Green Hotel	0.43	Peshawar	1	Distributors, Contractors
Margalla Motels	0.34	Islamabad	1	Distributors, Contractors

Hotels play an important role in the food service sector. International and domestic business

travel drive sales. Growth, however, has been slow due Pakistan's economic problems, declining law and order and political instability. Additionally, the 1997 ban on serving meals at weddings has had a significant negative impact on sales. Price considerations are an important factor in the purchase decision. U.S. products which are price competitive have the best chance of success, particularly in competition with traditional competitor brands. Since most hotels do not import food products directly, U.S. suppliers will need to promote their products through a local agent.

Family Style Restaurants

Name of Restaurant	1998 Food Sales (\$ million)	Number of Outlets	Type of Food	Purchasing Agent
Usmania	1.00	6	Pakistan	Contractors, Distributors
Shezan	0.80	10	Pakistan	Own Network
Tabaq	0.75	2	Pakistan	Contractors, Distributors
Shanghai	0.34	1	Chinese	Contractors, Distributors
Village	0.50	3	Pakistan	Contractors, Distributors
Wang Fu	0.22	1	Chinese	Contractors, Distributors
Mei Hua	0.19	1	Chinese	Contractors, Distributors
Nuggets	0.10	1	Japanese	Contractors, Distributors

The growth of western-style family restaurants has an important success story in Pakistan's food service industry. Although the sales data above may not look impressive, there are large numbers of restaurants across the country that do not report sales. This sector is an excellent target for U.S. suppliers because these restaurants feature increasing numbers of western and international dishes. As with hotels, most restaurants do not import directly but instead purchase their requirements through distributors or wholesalers. Western-style family restaurants are major consumers of imported fruit cocktails, juices, honey, mayonnaise, spices, salad dressings, tomato ketchup, mustard, pasta, beverages and other related items.

Fast Food Restaurants

Name of Restaurant	1998 Food Sales (\$ million)	Number of Outlets	Type of Food	Purchasing Agent
KFC	0.84	8	American	Direct, Dealers
Pizza Hut	0.78	7	American	Direct, Dealers
Bundu Khan	0.56	4	Pakistani	Distributors
McDonald's	0.42	5	American	Direct, Dealers

The growth of fast food restaurants is another success story. Most fast food franchises have been established in just the past 2 or 3 years and have proven to be very popular. The sales figures reported above appear modest because the bulk of outlets have opened only within the past year. Franchise restaurants generally rely on direct import from their regional outlets in Asia and Middle East for a number of items. For other products, the franchises rely on local importers, distributors, and wholesalers. A large number of non-franchised fast food restaurants also offer excellent opportunities for U.S. products, mainly via local agents and distributors. Fast food restaurants are major consumers of imported flour, prepared meat, frozen french fries, condiments and beverages.

Institutional Food Companies

Name of Company	1998 Food Sales (\$ million)	Number of Outlets	Type of Food	Purchasing Agent
Defense Clubs Lahore/Karachi	2.41	1	Pakistani	Distributors, Contractors
Gymkhana Clubs	1.00	2	Pakistani	Distributors, Contractors
Islamabad Club	0.96	1	Pakistani	Distributors, Contractors

The institutional food service market offers limited potential for U.S. products. The majority of institutional food sales are made by catering firms. Institutional sales totaled \$64 million in 1998. This sector is smaller than one might expect because certain institutions that provide food service facilities in other countries (e.g., hospitals) do not provide food service facilities in Pakistan. Growth in the institutional sector also has been severely constrained by the ban on meals at weddings and other celebrations as an austerity measure. Most institutional food service firms are very price sensitive and purchase through agents and distributors in bulk to keep prices low.

III. COMPETITION

The source of competition varies widely by product. European and Far Eastern countries, plus Australia, New Zealand and South Africa, are the major U.S. competitors. Almost all

competitors have a freight advantage over the United States. Products from the Far East often have a price advantage but not a quality advantage. Pakistani consumers generally are more familiar with European products due to their long and close association with Europe. Even when a U.S. product is imported, it generally is purchased indirectly from consolidators in Dubai or is manufactured outside of the United States.

The general practice is for an importer to place his order with a foreign wholesaler, usually after some initial personal contact. Importers increasingly prefer to look for companies with new brands and products that offer exclusive distribution rights. Several new products have been successfully introduced and promoted under exclusive distribution rights. For example, European honey and cooking oil have developed a strong consumer preference due largely to promotional efforts of the sole distributor. Recently, an international firm successfully launched a brand of orange juice in cooperation through a local agent with sole country distribution rights.

IV. BEST PRODUCT PROSPECTS

(Products Present in the Market with Good Sales Potential)

Frozen french fries, condiments, nuts, fruit cocktail, juices, honey, cereals and cheeses are the main items imported for the food service sector. Franchise fast food chains also import hard wheat flour, prepared meats and other items required for their particular fare. Although major international brands are popular, there is good potential for new brands, especially if they are price competitive and are promoted.

(Products Not Present in Significant Quantities but which Have Good Sales Potential)

Demand for imported beverages, fruit juices, frozen "halal" goat and sheep meat, dry milk, salad dressings, fruit syrups and cake mixes is growing rapidly. Since traditional Pakistani foods are spicy, hot sauces and condiments have good sale potential, especially if they are promoted. The introduction of new foods requires substantial consumer and food service industry education and training. Imports of frozen "halal" meats showed promise until a ban on serving meals at weddings was enacted in 1997. The government reportedly is considering loosens this restriction. If so, imported frozen meat is expected to be very price competitive. Australia and New Zealand are major U.S. competitors for this business..

(Products Not Present Because They Face Significant Barriers)

Pork and pork products as well as alcoholic beverages or ingredients containing alcohol may not be imported for religious reasons.

V. POST CONTACT

If you have questions or comments regarding this report or need assistance exporting to Pakistan (or Uzbekistan or Kazakhstan), please contact the Foreign Agricultural Service Office in Islamabad at the following:

Mailing Address: Agricultural Attache
 AMEMB-Islamabad
 Unit 62200, Box 16
 APO AE 09812-2200

Local Address: Agricultural Attache
 U.S. Embassy
 Diplomatic Enclave
 Ramna 5
 Islamabad, Pakistan

Phone: (92-51) 2080-2276

FAX: (92-51) 278-142

E-mail: agislamabad@fas.usda.gov

For more information on exporting U.S. agricultural products, please visit the Foreign Agricultural Service's home page at: <http://www.fas.usda.gov>